LACLEDE GAS COMPANY EXPERIMENTAL INCENTIVE PLAN TO EXPIRE

Jefferson City (September 20, 2001)---Laclede Gas Company did not "sustain its burden of proof that the GSIP (Gas Supply Incentive Program) strikes the proper balance between the ratepayer and shareholder. Therefore, the GSIP will be allowed to expire. The goal of providing lower prices for the ratepayer has not been met," the Missouri Public Service Commission stated in an order issued today. As a result of the Commission's decision, Laclede Gas Company's experimental gas supply incentive program will expire by its own terms on October 17, 2001.

GSIP's for regulated natural gas utilities are generally designed to provide incentives, usually through increased profits, to a utility company to minimize its costs of service to its customers through maximizing how efficiently the utility can operate and/or acquire low cost natural gas supplies for its customers.

This GSIP was established to permit Laclede Gas Company and its ratepayers to share in specified savings and revenues realized by the company in acquiring, utilizing and managing its system gas supply assets.

"The goal of such a plan is to benefit both the company and the ratepayer," stated Public Service Commission Chairman Kelvin Simmons. "The Commission is very interested and generally supports company efforts to develop well-designed programs that properly balance company rewards for reaching goals with consumer protection," stated Simmons.

The Commission's decision to let the experimental program expire on its own terms on October 17, 2001 is based on a number of issues including:

1) The current GSIP has not created any significant savings on the demand cost of gas, but has generated large profits for Laclede Gas Company last winter;

2) Rewarding Laclede Gas Company for merely tracking the highly volatile index cost of gas has not served the ratepayers' interest. The Commission stated in its order:

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“Providing an incentive to Laclede to buy gas according to index, rather than taking a broader view and considering fixed price instruments, effectively limits Laclede’s options, potentially causes ratepayers to pay higher costs than necessary, and is not in the public interest.”

3) The preapproval process is not appropriate. The Commission noted: “Preapproval could discourage Laclede from taking opportunities to secure fixed price contracts that would produce reasonable price protection for customers.”

4) In fiscal years 1997 to 2000, GSIP earnings comprise between 14% and 22.9% of Laclede’s total net income, after taxes. Laclede has incorporated the earnings into its overall earnings program, which was never its purpose;

The Commission stated in its order: “The public will benefit more from a comprehensive purchasing program that focuses on the delivered cost of gas and reliability, rather than a program driven by individual, compartmentalized benchmarks. A comprehensive program defines and measures how ratepayers are benefited, incorporates weather risk into the purchasing provisions, and establishes measurements that encourage proper actions and discourage inaction or ineffective actions. A comprehensive program also incorporates the effects of purchasing decisions, transportation availability, transportation costs, supply availability, supply costs, and the costs of hedging mechanisms.”

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